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SUBJECT: MOROCCAN GOVERNMENT DEFENDS ITS TOBACCO POLICY

REF: STATE 163312

¶1. (SBU) Summary: Econ Counselor met on November 15 with Abdelaziz Talbi, Morocco's Director of Public Enterprises and Privatization, to review the GOM's decision to extend Morocco's monopoly on the wholesale distribution of tobacco from December 31, 2007 to December 31, 2010. Reiterating the USG concerns contained in the diplomatic note of October 2 (reftel), he requested clarification of the societal and economic concerns that the GOM argues necessitate the extension, particularly in light of the privatization of the national tobacco distribution company, the Regie des Tabacs. Talbi said that while the Regie is now a private company, it retains important responsibilities to help the tobacco sector adapt to increasing global competition and changing consumer tastes. The extension, he said, was necessary to allow it to carry out those tasks. He outlined earlier liberalizing measures for the sector, including ending the monopoly on the import, export, and manufacturing of tobacco, and noted that even as it extended the monopoly, the GOM had also eliminated a requirement that cigarettes manufactured in Morocco have 20 percent local content. End Summary.

¶2. (SBU) Talbi's justification of the GOM's decision to extend the tobacco monopoly drew largely on material he had earlier furnished to USTR through Morocco's Ministry of Foreign Affairs, in response to a request for information on the decision. He explained that the tobacco sector in Morocco, which encompasses over a thousand farms on some 800 hectares, employs over 7,000 people in some of the poorest parts of the country. The sector, he said, is in desperate straits, largely as a result of the shift in consumer tastes here from "brown" tobacco, which is grown locally, to "blond" tobacco. Producers are on the "verge of complete failure," he said, and are giving up tobacco and turning to illicit products like cannablis.

3, (SBU) In order to maintain tobacco's viability and "save this activity," the GOM concluded a convention with the Regie des Tabacs, by which the Regie will provide technical assistance to maintain and increase production of tobacco and help farmers shift from "brown" tobacco to a more popular oriental tobacco (tabac d'orient), which is now largely grown in Greece. Morocco's climate is favorable for that variety, he said, as is the fact that it is labor rather than capital intensive. The imminent end of EU subsidies to Greek producers, Talbi said, offers Morocco an important market opening. He predicted that ultimately up to 6,800 hectares (an eight-fold increase) might be dedicated to its cultivation, with the potential for up to 100,000 jobs.

¶4. (SBU) Talbi dismissed media suggestions that the monopoly extension was a quid pro quo for the Regie de Tabac's recent agreement to buy the remaining 20 percent of the company that had remained in state hands after its 2003 privatization. The initial 2003 deal selling the Regie to the Spanish/French

company Altadis offered the purchaser an option on the remaining shares, he said, which could be exercised at the original purchase price. He also dismissed complaints from brokers in Casablanca who argued that the shares should have been placed on the Casablanca Stock Exchange. He estimated that the amount the government received for the shares from Altadis was likely double what they would have fetched on the exchange, given the control premium that Altadis was willing to pay.

15. (SBU) Talbi also argued that despite the prolongation of the monopoly on wholesale distribution of tobacco, other liberalizing moves have been taken in recent years, with the elimination of the state monopoly on the export and import of raw tobacco (in 2003 and 2005 respectively) and the elimination of the monopoly on the manufacturing and export of manufactured tobacco (also from 2005). He argued that the government's decision in 2006 to eliminate the requirement that cigarettes produced in Morocco have 20 percent local tobacco content was further evidence of its liberalizing intentions. Nonetheless, he said, the precarious state of the tobacco sector and the need to enlist Altadis' assistance had required extension of the tobacco monopoly.

16. (SBU) Talbi asked specifically if the USG has received complaints about the measure from the U.S. private sector. He said that he had received Philip Morris in early November and that they were "very content" with overall GOM policy in the sector. Currently, he noted, Philip Morris brands represent 8 percent of cigarette sales in Morocco. He suggested that the company is even thinking of manufacturing cigarettes in Morocco, if it can receive preferential tariff rates on tobacco imported from Europe.

17. (SBU) Comment: Talbi and his counterparts at the MFA are well aware of USG concerns about the monopoly extension, and we made clear that further discussion is likely the context of our review of the agreement's first year. While government projections of potential cultivation of tobacco in the north may appear optimistic, as recently as the early 1990's Morocco did devote almost 6,000 hectares to tobacco cultivation. End Comment.

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